



2005 – 2020 Long Term Financial Forecast

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Purpose

- Assess the ability of current General Fund revenues to maintain the present level of City services over the long term
- Evaluate options to close fiscal gap
- Identify future trends and challenges



What has changed since October

- Adjusted 2005/06 forecast to reflect final budget decisions
 - Reduced on-going revenues to reflect lower approved tax increases
 - Used \$800k one-time reserve funding to balance the budget
- Have identified the cost of existing deficiencies



What has changed (cont'd)

- Refined the following major revenue estimates and complied with City's fiscal policy on reserves starting in 2007
 - Eliminated 1% property tax increase to measure effect of no new taxes
 - Adjusted sales tax growth to reflect economic swings
 - Lowered projections for telephone utility tax revenue
 - Restored reserves to 10%

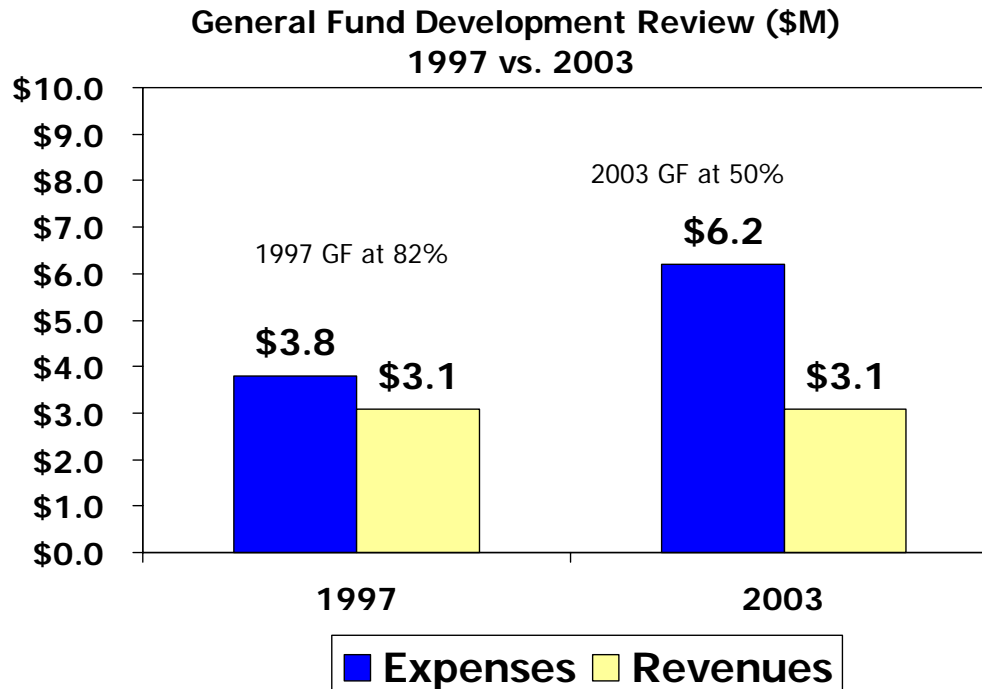


Economy: What has remained the same

- Still a lingering question about how strong recovery will be
- Puget Sound Region beginning to recover
- No major improvements in Redmond's economy

Revenues: What has remained the same

- Development review fees are not achieving cost recovery target
 - General Fund subsidizing operations at the rate of 50%
 - In 1997 Council set cost recovery target at 85 to 90%





Revenues (cont'd)

- FD 34 continues to contract with City with no fiscal impact to Redmond due to terminating contract with Sammamish/EFR
- Modest growth expected from electric and natural gas utility taxes



Expenses: What has remained the same

- Wages forecasted to rise on average 3.5% per year based on trends (should not be construed as City's bargaining position)
- Benefits one of the fastest rising cost centers
 - Increases in Medical premium lowered from 12% in 2007 to 9% to reflect actuarial recommendations; thereafter premiums escalated at 12%.
 - City continues to negotiate premium cost sharing
- PERS/LEOFF rates fully funded to recommended State actuarial levels
 - State legislature approved phase in of new rates effective July 1, 2005



Expenses (cont'd)

■ City Hall

- Additional funding ranging from \$250K to \$500K annually per conceptual funding plan
- Total General Fund obligation for City Hall through 2035 is \$11.6M; \$5.1M spent over forecast period

■ Fiscal policies

- Continued compliance with fiscal policies regarding CIP, capital equipment replacement, human services, arts per capita, etc



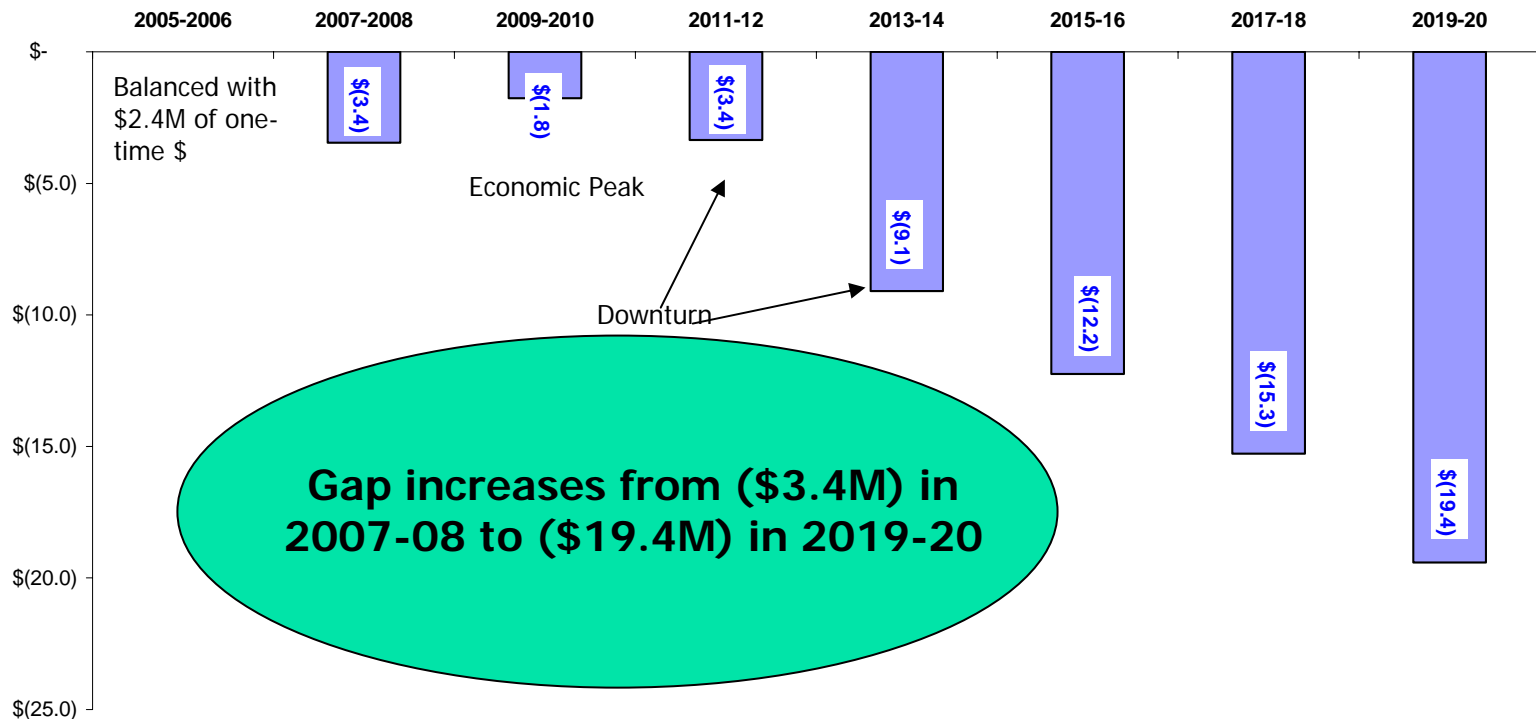
City Growth Statistics 2005 vs. 2020

	2005	2020	Change	% Change
Residential Pop	47,443	62,000	14,557	30.7%
Employment	79,568	94,794	15,226	19.1%
Housing (Dwelling units)	22,100	29,270	7,170	32.4%
Commercial Square Footage	27.7 million	32.9 million	5.2 million	18.8%

Note: This growth is cumulative to the base that the City must serve, compounding pressure on already strained operations and infrastructure

Base Forecast Results (Do Nothing Option)

- Service levels decline over time
- Economic activity alone will not provide the City a sustainable solution



Revenue Trends – Distribution of Revenues

- 82% of the City's General Fund revenues are derived from five sources

Major Revenue Sources:

35% Sales and Use Tax

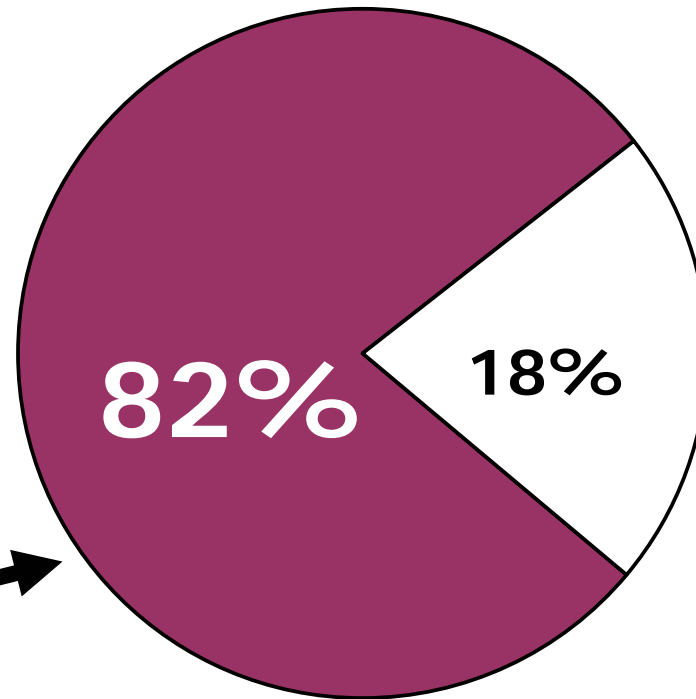
21% Property Tax

16% Utility Tax

7% Development Revenue

3% Business License

82% Total



2007-08 Biennium

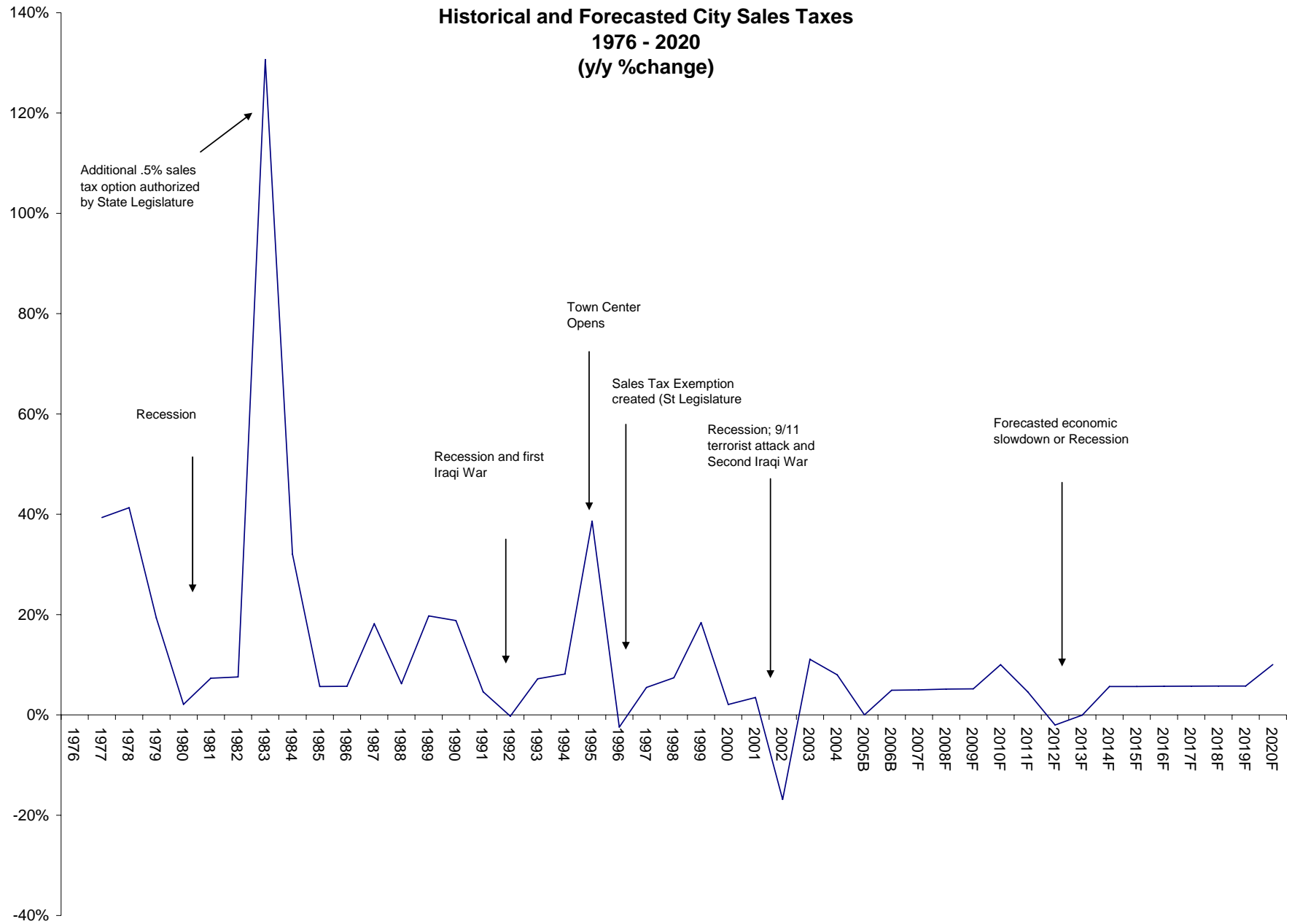
\$117.5M



Analysis of General Fund revenues

- Property Taxes (21%; \$24.7M) - City's second largest revenue
 - Limited to 1% increase + new construction
- Utility Taxes (16%; \$18.8M) - City's third largest revenue
 - Only modest growth expected; driven by industry trends and rates
- Development Revenue (7%; \$8.2M)
 - Tied to development review; General Fund is currently subsidizing at rate of 50%
- Business License (3%; \$3.5M)
 - Grows in direct relationship to employment but generates only a small amount of revenue
- Sales Taxes (35%; \$41.1M) - City's largest revenue
 - Most volatile
 - City heavily dependent on this revenue as it has the most potential for growth

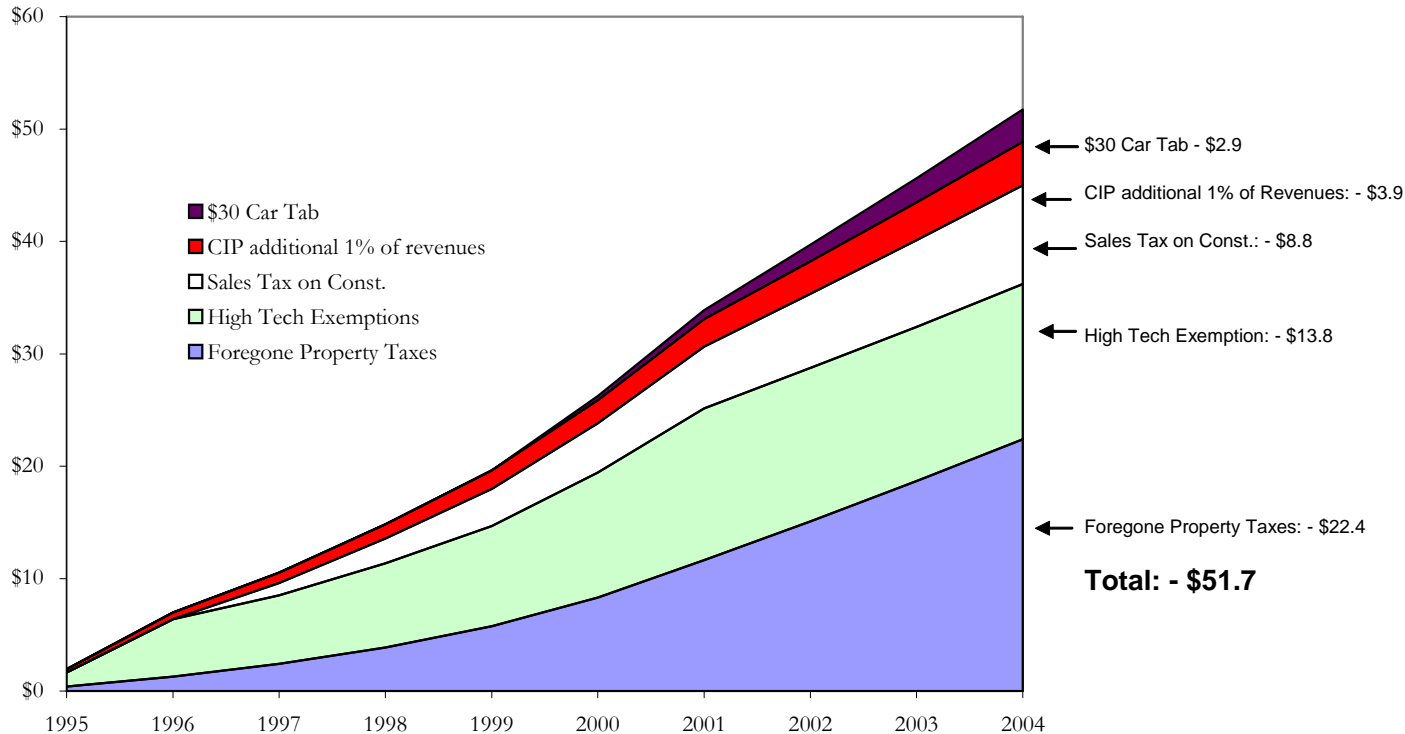
Historical and Forecasted City Sales Taxes **1976 - 2020** **(y/y %change)**



Analysis of General Fund revenues (cont'd)

- General Fund revenue base has been deteriorating for years
- Revenue lost from past State/voter approved initiatives and City policy changes is -\$51.7M

Cumulative General Fund Revenue Losses
by Category, 1995-2004 (\$M)



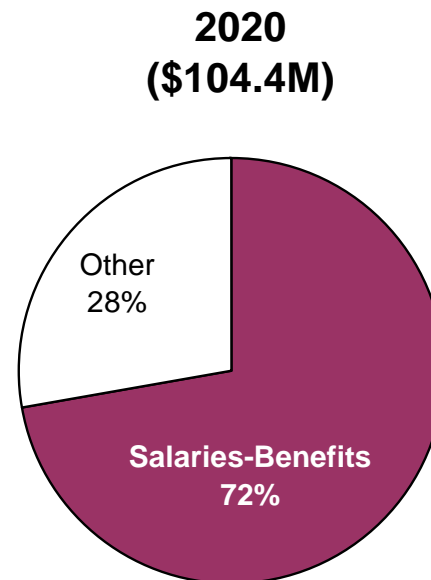
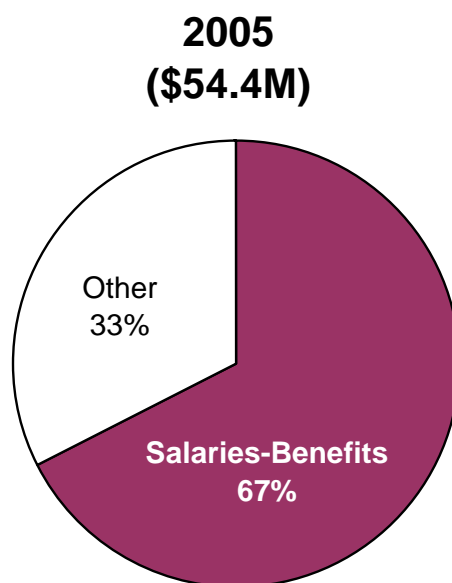


Revenue Conclusions

- The City is too heavily dependent on sales tax revenue
- City policy decisions, while designed to address capital needs and community concerns about higher taxes, have adversely impacted the General Fund
- State/voter approved initiatives have eroded base over time
- To ensure sufficient resources exist, the City needs to take action to diversify and stabilize its revenue base

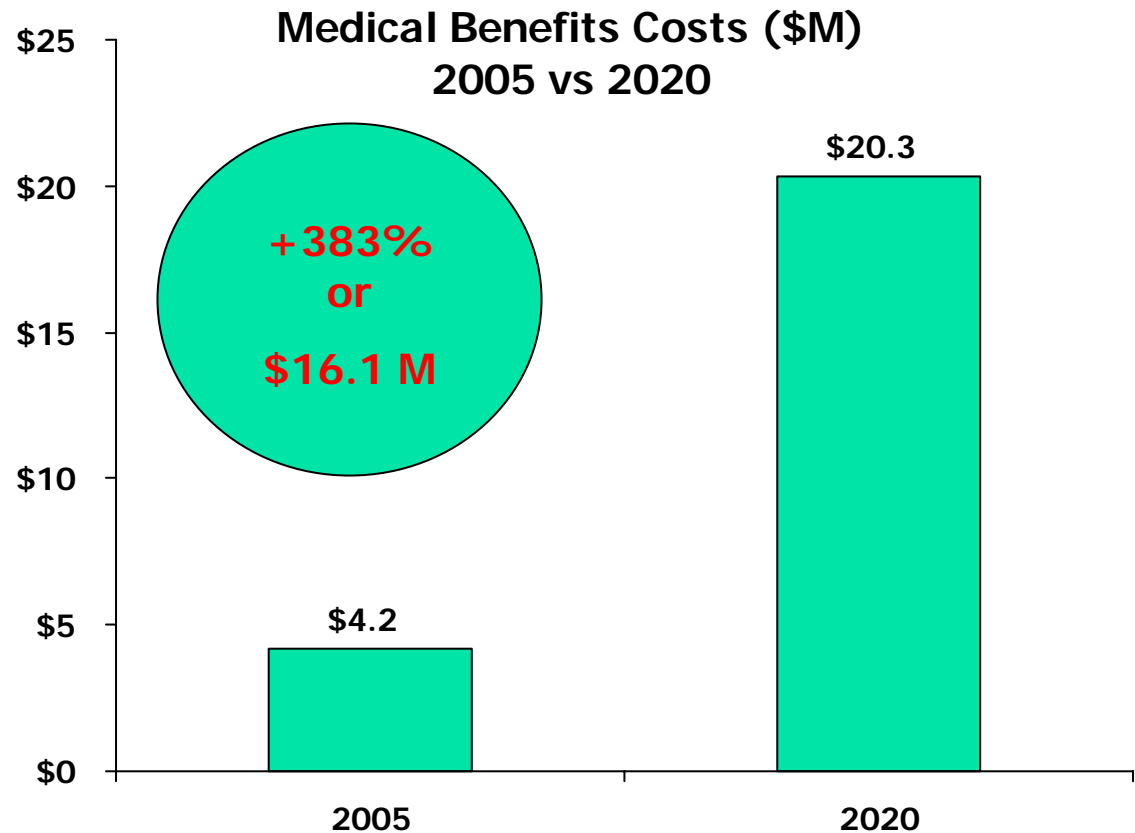
Expenditure Trends

- Expenses will nearly doubled from 2005 to 2020; revenue growth projected at 70%
- Salary and benefits as a percent of total expenses will increase from 67% in 2007 to 72% in 2020
 - Over half of these costs are attributable to Police/Fire
- Medical benefits major driver of this increase



Expenditure Trends – Medical Benefits

- Over the next 15 years, the cost of health benefits is expected to nearly quadruple, making it the fastest growing cost center for the City.





Expenditure Conclusions

- Service levels will decline over forecast period if no new employees are added to serve growth
- City needs to continue to pursue efforts to control both salary and benefits as these are its major cost drivers
- At 12% annual increases in medical, this cost center will double every 6 years and threatens the solvency of the General Fund

What will it take to maintain present levels of service

**Total
Deficiencies
(\$13.7M)
38 FTEs**

Deficiencies by Department

Department	2007-08	FTEs	Description
Fire	\$3.5M	9 FTEs	<ul style="list-style-type: none">■ Add staffing to FS#12 to improve response times■ Add aid car at FS#17 to address growth in North Education Hill■ Increase overtime to provide greater staffing flexibility and minimize impact on fire prevention
Police	\$2.8M	11FTEs	<ul style="list-style-type: none">■ 4 FTEs for participation in regional task forces on terrorism, cyber-crime, auto theft and identity theft■ 6th Police district to serve growth in the City's business and residential community (7FTEs)
Equipment Replacement	\$2.5M		<ul style="list-style-type: none">■ Funding for the replacement of general (\$2.0M) and fire capital equipment (\$500K)



Deficiencies (cont'd)

Deficiencies by Department

Department	2007-08	FTEs	Description
Finance & Info. Svcs.	\$2.0M	11 FTEs	<ul style="list-style-type: none">■ Inadequate staffing in payroll, Utility Billing, Business License to address compliance and internal control issues■ Establishes an internal auditing function and centralizes accounts receivables in accounting■ Staffing in Information Services to address backlog of technology application projects, deferred maintenance of city systems, and plan for new technologies■ Administrative support in Administration and Financial Planning to administer city retirement programs and perform services such as revenue audits, development of an in-house performance measurement system and increased fiscal analysis
H.R.	\$1.0M	3 FTEs	<ul style="list-style-type: none">■ Senior labor analyst to support labor negotiations (1FTE)■ Personnel to administer benefits/wellness program (1FTE)■ Recruiter (1FTE)■ Funding for benefits redesign analysis, recruitment initiatives, wellness consulting, and employee tuition assistance/training

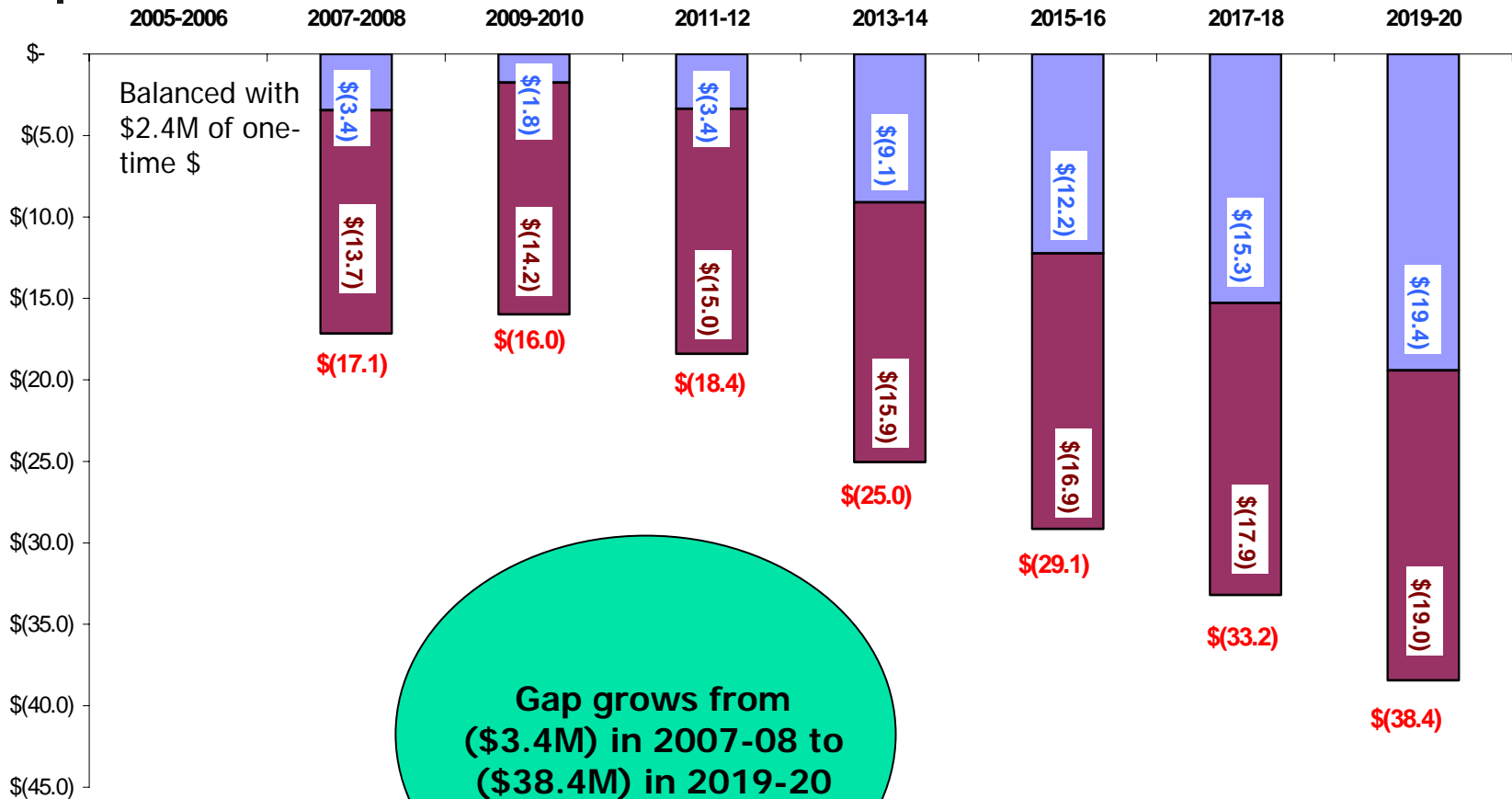


Deficiencies (cont'd)

Deficiencies by Department

Department	2007-08	FTEs	Description
Parks	\$765K		<ul style="list-style-type: none">■ Fund the maintenance on a number of CIP projects which came on line over the last several years or will be completed in 2005-06: South East Redmond, Juel and Edge Skate Parks; Westlake Sammamish Parkway, Idylwood Stream Rehab, Bridle Crest Trail, Dudley Carter Site, Bel-Red road , 140th Ave, Union Hill Road, Anderson Park water treatment Facility, Stroll-HEP, Street Trees and New City Hall Landscaping■ Partially restores funding to recreation that was reduced as a result of budget cuts and accommodate changes to and increased demand for recreation programs
Public Works	\$520K	2 FTEs	<ul style="list-style-type: none">■ Signal technicians needed to maintain increasing number of signal lights in the city
Executive	\$305K	1 FTE	<ul style="list-style-type: none">■ Sr. Policy Analyst■ Contract lobbyist
Planning	\$220K		<ul style="list-style-type: none">■ To cover rising legal expenses and restore a portion of operating costs that were reduced significantly during the budget process
City Hall	\$120K	1 FTE	<ul style="list-style-type: none">■ Receptionist at the new City Hall

Cost to Maintain Present Levels of Service (No new revenues)





Forecast Conclusions

- If nothing is done to increase revenues, City will have to cut services significantly
- Imperative that the City takes action now to determine an appropriate level of service for a growing community and supports this level of service with a diversified, stable revenue base



Options available to close fiscal gap

2007-08

Projected gap:

**Base
(\$3.4M)**

+

**Deficiencies
(\$13.7M)**

=

**Total
(\$17.1M)**

■ Options

- Adjust development review fees to 85% to 90% cost recovery

\$4.4M – \$4.8M/biennium

- Increase Redmond's portion of the property tax by 1% each year

\$230K/biennium



Options (cont'd)

- Utility Taxes
 - Increase rate from 5.8% to 6% \$550K/biennium
 - Tax City utilities same as private utilities \$3.6M/biennium
- Business Tax
 - Increase fee (every \$10 yields) \$1.2M/biennium
- Property Tax
 - Tap banked capacity (\$1.4 balance) \$2.8M/biennium
 - Ask voters to lift the property tax lid
current rate \$1.32; maximum rate \$3.10 \$33.1M/biennium



Options (cont'd)

- Other
 - Authorize up to a .2% B&O tax on gross receipts \$35.2M/biennium

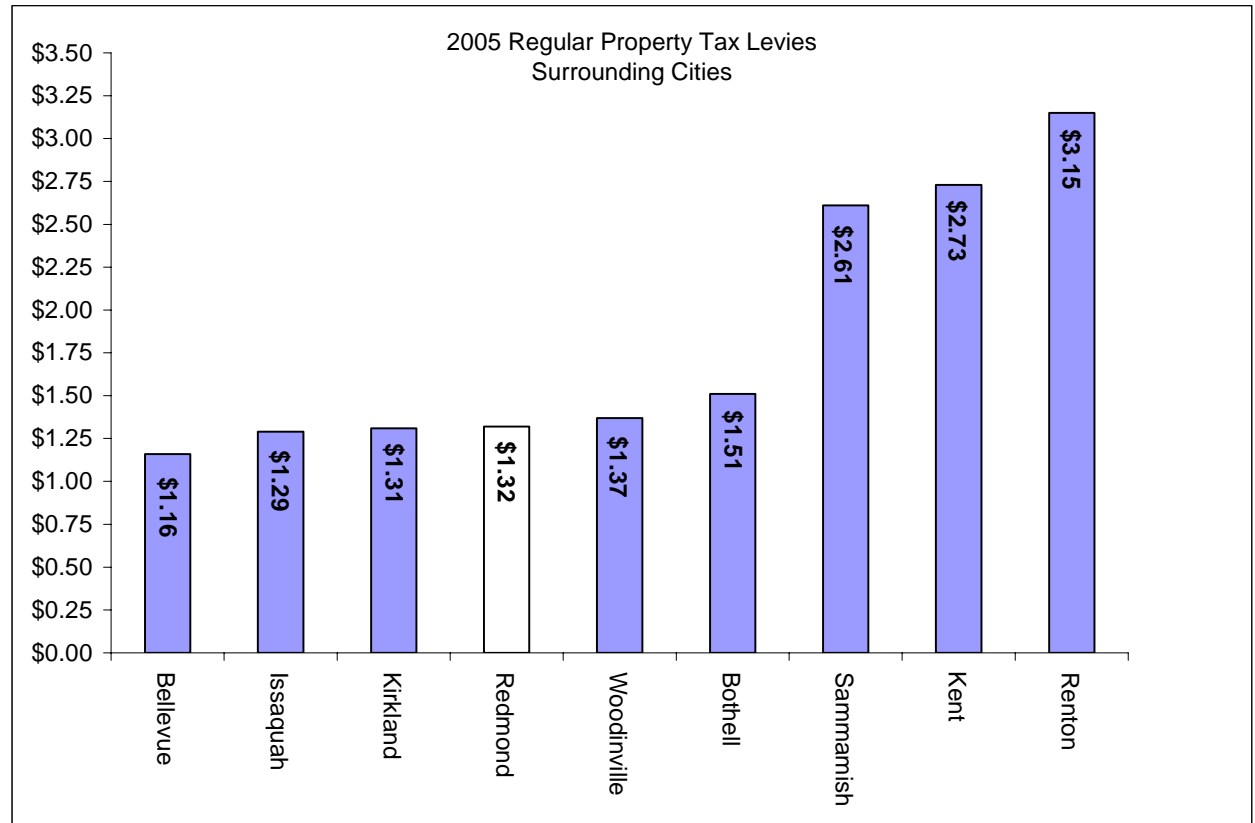
 - Keep operating reserve at 8.5% \$800K savings (2007-08)
\$60-80K savings/biennium thereafter

 - Cut programs, services, infrastructure

 - Use remaining economic contingency \$1.7 million (one time)

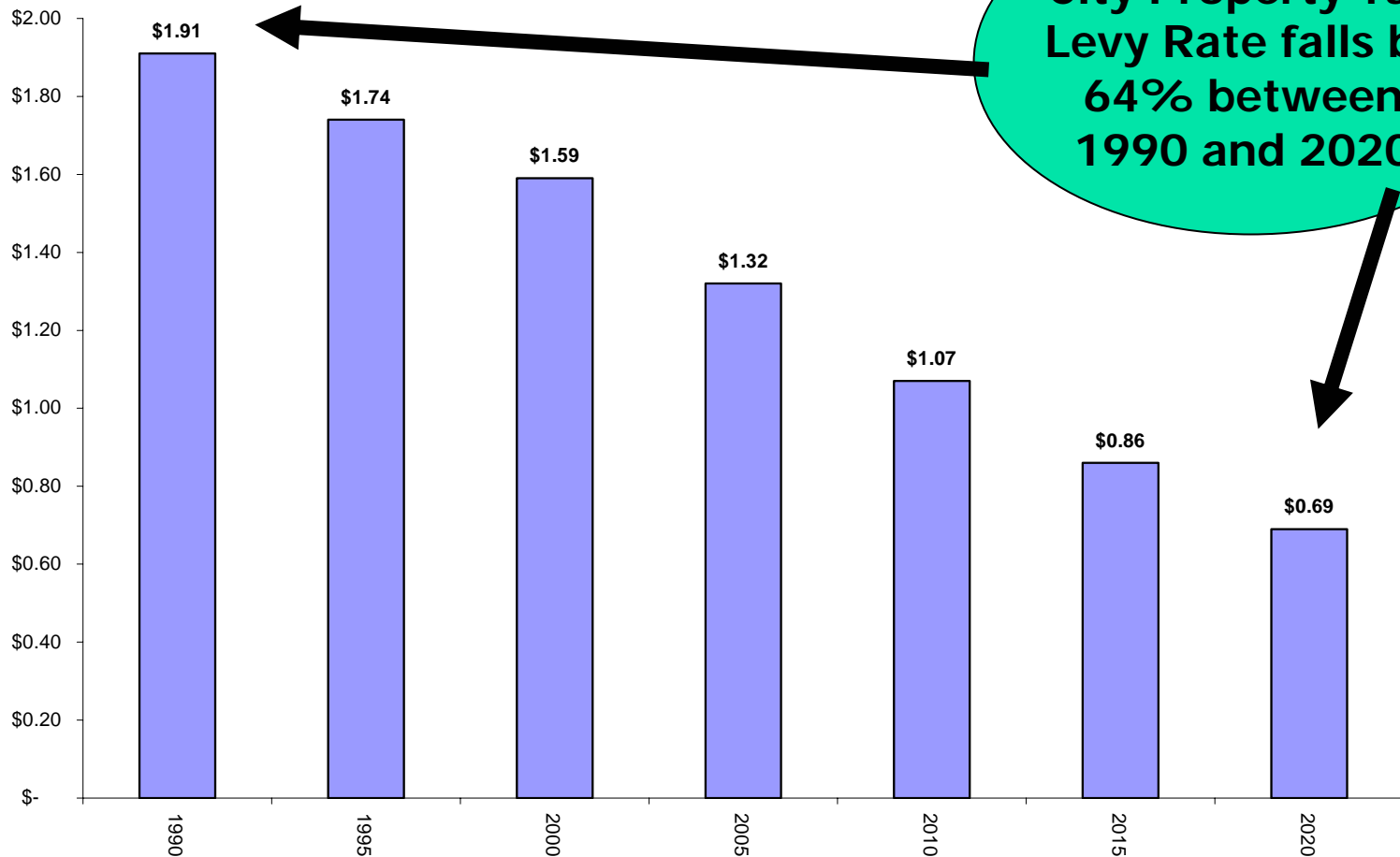
How Redmond's Property Tax Rate Compares to Other Jurisdictions

Redmond has one of the lowest tax rates of surrounding jurisdictions



Source: King County Assessor's Office

Snapshot of Redmond's Property Tax rates 1990-2020





Utility Tax Rates

Interjurisdictional Comps

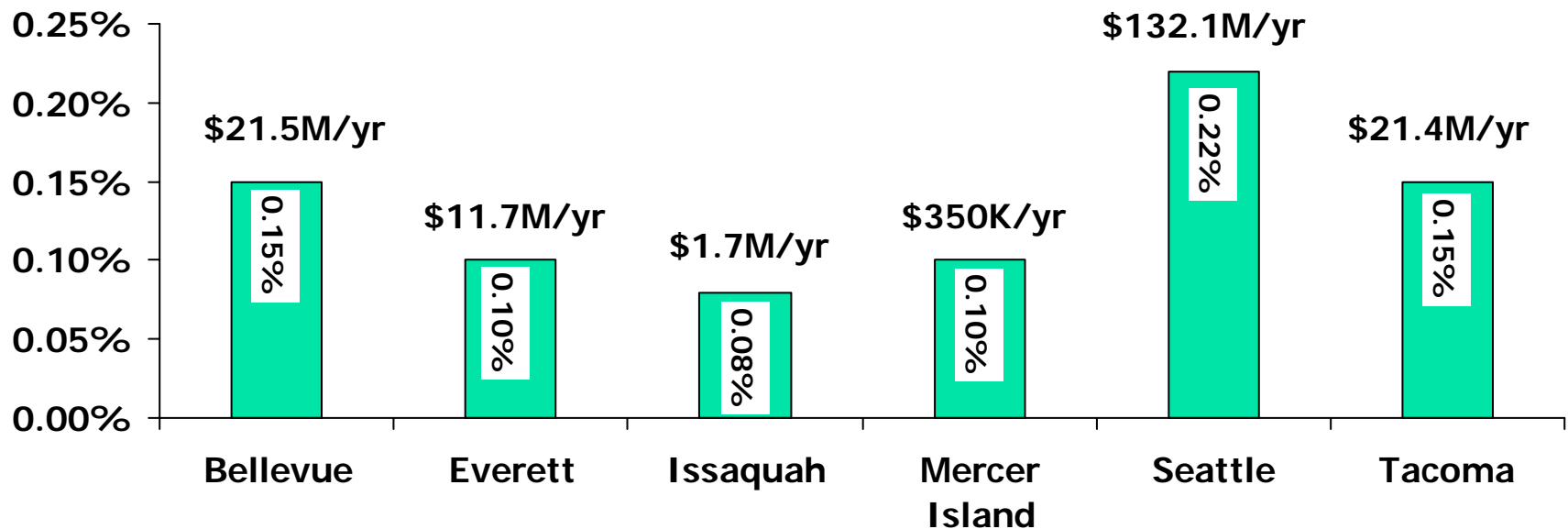
- Most cities are
1) taxing their own utilities and
2) taxing private utilities at the maximum
- Redmond is the only City not taxing private utilities at the maximum and one of two cities not taxing its own utility

	Electricity	Telephone	Natural Gas	City Utilities*
Bothell	6.0%	6.0%	6.0%	6.0%
Issaquah	6.0%	6.0%	6.0%	None
Renton	6.0%	6.0%	6.0%	6.0%
Seattle	6.0%	6.0%	6.0%	10.0%
Tacoma	6.0%	6.0%	6.0%	8.0%
Federal Way	6.0%	6.0%	6.0%	6% (SWM only)
Kirkland	6.0%	6.0%	6.0%	6.5%; 6% (SWM only)
Kent	6.0%	6.0%	6.0%	4.8%
Bellevue	4.5%	6.0%	4.5%	4.5%
Redmond	5.8%	5.8%	5.8%	none

* Water, Sewer, and Storm

B&O Tax Comparison Between Cities

- B&O Tax is in effect for 39 cities in the State
 - Note: Redmond and Renton levy a head tax rather than a tax on gross receipts (Renton \$55.68*, \$1.6M/yr; Redmond \$83.25, \$5.2M/yr)



* City of Renton head tax is \$.029/employee hour worked. Source: City of Renton Website.



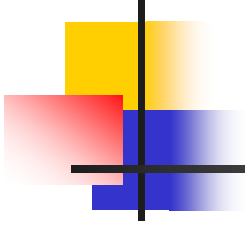
Future challenges (not included in forecast)

- Development activity – will require more resources if activity increases (Planning Dept. estimates \$1.3M/biennium; 4FTEs plus consultants)
- Impact fees not covering cost of capacity projects
- Unfunded Parks capital projects: \$12M plus M&O
- Transportation Master Plan not fully funded; estimated cost \$200M plus M&O
- City campus master plan is not funded; estimated cost \$10M plus M&O



Conclusion

- Developing a sound long term financial plan is the most critical issue facing the City
- Revenues not sufficient to cover the cost of City services
- The fiscal gap to maintain present levels of service is significant, precipitating the need to act now



End Of Presentation